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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

A92-2240

FORM 10-Q

Quarterly Report Under Section 13 or 15 (d)
of The Securities Exchange Act of 1934

For Quarter Ended August 1, 1992 Commission File Number 0-3747

THE CATO CORPORATION AND SUBSIDIARIES
(Exact name of registrant as specified in its charter)

Delaware	56-0484485
(State or other jurisdiction of incorporation or organization)	(I. R. S. Employer Identification No.)
8100 Denmark Road, Charlotte, North Carolina	28273-5975
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (704) 554-8510

Not Applicable
Former name, former address and former fiscal year, if changed since last report.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of The Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

As of August 14, 1992, there were 12,182,052 shares of Class A Common Stock and 5,518,338 shares of Class B Common Stock outstanding.

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THE CATO CORPORATION

FORM 10-Q

August 1, 1992

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THE CATO CORPORATION
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended August 1, 1992	Three Months Ended August 3, 1991	Six Months Ended August 1, 1992	Six Months Ended August 3, 1991
	(In thousands, except per share data)			
REVENUES:				
Retail sales	$ 76,653	$ 65,809	$ 152,751	$ 129,203
Other income (principally finance and layaway charges)	2,232	2,117	4,659	4,241
Total revenues	78,885	67,926	157,410	133,444
COSTS AND EXPENSES:				
Costs of goods sold, including occupancy, distribution and buying	51,748	44,353	98,933	83,040
Selling, general and administrative	19,531	18,182	38,718	35,802
Depreciation	1,043	1,127	2,061	2,275
Total operating expenses	72,322	63,662	139,712	121,117
OPERATING INCOME	6,563	4,264	17,698	12,327
Interest	331	829	1,087	1,719
INCOME BEFORE INCOME TAXES AND EXTRAORDINARY ITEM	6,232	3,435	16,611	10,608
Income taxes	2,306	1,305	6,146	4,031
INCOME BEFORE EXTRAORDINARY ITEM	3,926	2,130	10,465	6,577
Extraordinary loss on early debt retirement, net of income tax benefit	657	–	657	–
NET INCOME	$ 3,269	$ 2,130	$ 9,808	$ 6,577
EARNINGS PER SHARE:				
Income before extraordinary item	$ 0.22	$ 0.15	$ 0.65	$ 0.45
Extraordinary loss	0.04	–	0.04	–
Net income	$ 0.18	$ 0.15	$ 0.61	$ 0.45
DIVIDENDS PER SHARE	$ 0.02	$ –	$ 0.02	$ –

See notes to unaudited consolidated financial statements.

	August 1, 1992	August 3, 1991	February 1, 1992
		(In thousands)	
ASSETS			
Current Assets:			
Cash and cash equivalents	$ 18,996	$ 12,910	$ 16,621
Accounts receivable – net	26,406	23,759	23,269
Merchandise inventories	36,760	33,336	27,343
Prepaid expense	2,298	2,421	2,259
Total Current Assets	84,460	72,426	69,492
Property and Equipment	20,719	24,158	21,923
Other Assets	3,469	1,196	3,515
Total	$ 108,648	$ 97,780	$ 94,930
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities:			
Accounts payable	$ 24,530	$ 24,485	$ 21,879
Accrued expenses	8,640	7,943	7,648
Restructuring reserve	1,941	3,152	2,136
Income taxes	1,703	3,232	4,643
Current portion of long-term debt	–	1,000	–
Total Current Liabilities	36,814	39,812	36,306
Long-Term Debt	–	26,946	24,891
Deferred Income Taxes	433	738	854
Noncurrent Restructuring Reserve	867	2,931	1,783
Other Noncurrent Liabilities	462	791	617
Stockholders' Equity:			
Class A Common Stock, issued 18,016,722 shares, 15,107,461 shares and 15,131,722 shares at August 1, 1992, August 3, 1991 and February 1, 1992, respectively	603	503	505
Convertible Class B Common Stock, issued 5,518,338 shares, 5,552,599 shares and 5,528,338 shares at August 1, 1992, August 3, 1991 and February 1, 1992, respectively	181	186	184
Preferred Stock, none	–	–	–
Additional paid-in capital	41,538	10,588	11,504
Retained earnings	34,581	22,187	25,127
	76,903	33,464	37,320
Less Class A Common Stock in treasury, at cost (5,835,070 shares, 5,985,270 shares and 5,857,470 shares at August 1, 1992, August 3, 1991 and February 1, 1992, respectively.)	6,831	6,902	6,841
Total Stockholders' Equity	70,072	26,562	30,479
Total	$ 108,648	$ 97,780	$ 94,930

See notes to unaudited consolidated financial statements.

THE CATO CORPORATION
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended	
	August 1, 1992	August 3, 1991
	(In thousands)	
OPERATING ACTIVITIES:		
Net income	$ 9,808	$ 6,577
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	2,061	2,275
Amortization of deferred charges	22	34
Deferred income taxes	(421)	738
Extraordinary loss on early debt retirement	657	–
Loss on disposal of fixed assets	–	33
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(3,137)	1,207
(Increase) in merchandise inventories	(9,417)	(8,728)
(Increase) Decrease in other assets	(129)	227
Increase (Decrease) in accrued income taxes	(2,555)	3,232
Increase in accounts payable and other liabilities	2,920	7,530
Net cash provided by (used in) operating activities	(191)	13,125
INVESTING ACTIVITIES:		
Expenditures for property and equipment	(1,400)	(143)
Appreciation in cash surrender value of life insurance	(180)	(122)
Net cash used in investing activities	(1,580)	(265)
FINANCING ACTIVITIES:		
Retirement of debt	(25,639)	–
Proceeds from issuance of common stock	30,051	–
Cash dividends paid	(354)	–
Proceeds from stock options exercised	88	16
Borrowings under revolving credit agreement	–	47,997
Repayments under revolving credit agreement	–	(50,997)
Net cash provided by (used in) financing activities	4,146	(2,984)
Net Increase in Cash and Cash Equivalents	2,375	9,876
Cash and Cash Equivalents at Beginning of Year	16,621	3,034
Cash and Cash Equivalents at End of Period	$ 18,996	$ 12,910

See notes to unaudited consolidated financial statements.

NOTE 1 - GENERAL:

The consolidated financial statements have been prepared from the accounting records of the Company and all amounts shown at August 1, 1992 and August 3, 1991 are unaudited. In the opinion of management, all adjustments (consisting solely of normal recurring adjustments) considered necessary for a fair presentation have been included.

Certain reclassifications have been made to the consolidated financial statements as of August 3, 1991 to conform with classifications used as of August 1, 1992.

Inventories are stated at the lower of cost (first-in, first-out) or market, determined by the retail inventory method.

The provisions for income taxes are based on the Company's estimated annual effective tax rate.

NOTE 2 - EARNINGS PER SHARE:

Earnings per share have been computed based on the weighted average number of Class A and Class B common shares outstanding during the respective periods. The weighted average number of shares outstanding were 17,568,099 shares and 16,185,483 shares for the three and six months ended August 1, 1992, respectively, and 14,669,729 shares and 14,669,460 shares for the three and six months ended August 3, 1991. Common stock equivalents did not have a material dilutive effect.

NOTE 3 - SUPPLEMENTAL CASH FLOW INFORMATION:

Interest paid during the six months ended August 1, 1992 and August 3, 1991 was $1,397,000 and $1,558,000, respectively. Income tax payments, net of refunds, for the six months ended August 1, 1992 and August 3, 1991 were $9,108,000 and $38,000, respectively.

NOTE 4 - COMMON STOCK OFFERING

In May 1992, the Company issued 2,875,000 shares of Class A Common Stock in a public offering at an offering price of $11.25 per share. The net proceeds of $30,051,000 were used to pay $25,639,000 of principal and a early retirement premium on the Company's Subordinated Debentures, which is further described in Note 5, the remainder of net proceeds were added to working capital and will be used to fund the Company's expansion plans and for general corporate purposes.

NOTE 5 - RETIREMENT OF SUBORDINATED DEBENTURES

In June 1992, the Company retired its 10 1/2% Subordinated Debentures which had a scheduled maturity date of December 15, 1996. The Subordinated Debentures had a principal amount outstanding of $24,891,000 and were retired at 103% of the face value. In connection with the retirement of the Subordinated Debentures the Company recorded in the second quarter an extraordinary loss of $657,000 or $.04 per share which is net of an income tax benefit of $385,000. The loss resulted from a pre-tax early retirement premium of approximately $747,000 and the pre-tax write off of approximately $295,000 of unamortized bond issue costs.

Assuming the Company had issued the necessary shares of Class A Common Stock and used the net proceeds to retire the Subordinated Debentures on February 2, 1992, pro-forma net income would have been $4,083,000 or $.23 per share for the second quarter and $10,362,000 or $.55 per share for the six months ended August 1, 1992. The pro-forma results for the six months ended August 1, 1992 include the effects of the extraordinary loss relating to the early retirement of the Subordinated Debentures.

RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, certain items in the Company's Unaudited Consolidated Statements of Operations as percentages of total revenues:

	Three Months Ended		Six Months Ended	
	August 1, 1992	August 3, 1991	August 1, 1992	August 3, 1991
Total revenues	100.0 %	100.0 %	100.0 %	100.0 %
Cost of goods sold, including occupancy, distribution and buying	65.6	65.3	62.9	62.2
Selling, general and administrative	24.8	26.8	24.6	26.8
Operating income	8.3	6.3	11.2	9.2
Income before income taxes and extraordinary item	7.9	5.1	10.6	7.9
Income before extraordinary item	5.0	3.1	6.6	4.9
Net income	4.1	3.1	6.2	4.9

Comparison of Second Quarter and First Six Months of 1992 with 1991

OPERATING RESULTS

Total retail sales increased 16.5% and 18.2% from the prior year for the second quarter and first six months of the current fiscal year. Same-store sales increased 12.5% and 16.1% for the three and six months ended August 1, 1992. The Company operated 502 stores at August 1, 1992 compared to 489 stores operated at August 3, 1991. The improvement in same-store sales reflect the continued success of the Company's merchandise assortments and merchandising strategies. The Company's total sales have also been positively impacted by the new and relocated stores opened thus far this year.

Other income was $2,232,000 and $4,659,000 for the three and six months ended August 1, 1992 compared to $2,117,000 and $4,241,000 recorded for the prior year's second quarter and first six months. The increases for the quarter and for the first six months of 1992 resulted principally from earnings on short-term investments.

Cost of goods sold including occupancy, distribution and buying was 65.6% and 62.9% of revenue for the current year's second quarter and first six months compared to 65.3% and 62.2% of revenue for last year's comparable periods. Although cost of goods sold including occupancy, distribution and buying as a percentage of revenue remained relatively stable for the periods presented, the higher sales levels experienced by the Company resulted in substantial improvements in gross margin dollars. The Company's gross margin was $24,905,000 and $53,818,000 for the three and six months ended August 1, 1992 and $21,456,000 and $46,163,000 for last year's comparable periods.

Selling, general and administrative (SG&A) expenses were $19,531,000 and $38,718,000 for this year's second quarter and first six months compared to $18,182,000 and $35,802,000 for the three and six months ended August 3, 1991. Total SG&A increased 7.4% and 8.1% over the prior year's second quarter and first six months but as a percent of revenue total SG&A decreased to 24.8% from 26.8% for the second quarter and decreased to 24.6% from 26.8% for the comparable six month periods. The Company has continued to closely monitor all operating expenses to assure that any additions to operating expense are in line with the revenue levels achieved. Bad debt expense, which is a component of SG&A, was $310,000 and $650,000 for the second quarter and six months end August 1, 1992 compared to $1,103,000 and $2,559,000 recorded in last year's second quarter and first six months. The decreases reflect the continued improvement in the aging categories of the Company's customer accounts receivable portfolio. Additionally, in the current year the Company recorded no provision for store closings compared to $245,000 and $490,000 recorded in the prior year's second quarter and first six months. In the current year the costs associated with the relocation and closing of existing stores was charged against a restructuring reserve recorded at the end of the fiscal year ended February 2, 1991.

LIQUIDITY AND CAPITAL RESOURCES

At August 1, 1992 the Company's working capital was $47,646,000 compared to $32,614,000 at August 3, 1991 and $33,186,000 at February 1, 1992. At August 1, 1992 the Company had no borrowings under its bank revolving credit agreement compared to $3,000,000 at August 3, 1991. Net cash used in operating activities was $191,000 for this year's first six months compared to net cash provided of $13,125,000 in the prior year six month period. The decrease in the current year resulted principally due to approximately $4,540,000 of income tax payments made in the current year on the prior year's tax liability and by the higher merchandise and accounts receivable levels needed to support the Company's increased sales levels.

In May 1992 the Company issued 2,875,000 shares of Class A Common Stock in a public offering at an offering price of $11.25 per share. The net proceeds of $30,051,000 were used to pay $25,639,000 of principal and a early retirement premium on the Company's Subordinated Debentures and the remainder of net proceeds were added to working capital and will be used to fund the Company's expansion plans and for general corporate purposes. The Subordinated Debentures which were retired in June 1992 had a principal amount outstanding of $24,891,000 and were subject to an early retirement premium of 3% of the face value. In connection with the retirement of the Subordinated Debentures the Company recorded an extraordinary loss of $657,000, net of an income tax benefit of $385,000, resulting from the retirement premium and the write-off of unamortized bond issue costs.

Net property additions were $1,400,000 for the six months ended August 1, 1992 compared to $143,000 of additions for last year's comparable period. The Company plans approximately $5,000,000 of net capital expenditures for 1992. The expenditures relate principally to the opening of new stores and the relocation, expansion and remodeling of existing stores. Capital expenditures are expected to be financed principally through internally generated funds and by proceeds from the common stock offering.

THE CATO CORPORATION

ITEM 1. LEGAL PROCEEDINGS

None

ITEM 2. CHANGES IN THE RIGHTS OF THE COMPANY'S SECURITY HOLDERS

None

ITEM 3. DEFAULTS BY THE COMPANY ON ITS SENIOR SECURITIES

Not Applicable

ITEM 4. RESULT OF VOTES OF SECURITY HOLDERS

Following are the results of the matters voted upon at the Company's Annual Meeting which was held on May 21, 1992.

Election of Directors - Linda McFarland (Jenkins) - For 60,457,611; Abstaining 2,164; Against 0

Larrimore Wright - For 60,457,531; Abstaining 2,244; Against 0

George S. Currin - For 60,457,621; Abstaining 2,154; Against 0

Amendment to 1987 NonQualified Stock Option Plan - For 60,447,910; Abstaining 576,034; Against 17,686

Ratification of Ernst & Young as Auditors - For 60,447,910; Abstaining 2,019; Against 9,846

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(A) None

(B) On May 22, 1992 the Company filed a Form 8-K under Item 5. Other Events. The Form 8-K was filed in relation to the Company issuing a notice to retire its Subordinated Debentures. The Subordinated Debentures were retired in June 1992.

THE CATO CORPORATION

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE CATO CORPORATION

August 21, 1992
Date

/s/Wayland H. Cato, Jr.
Wayland H. Cato, Jr.
Chief Executive Officer

August 21, 1992
Date

/s/Alan E. Wiley
Alan E. Wiley
Executive Vice President
Chief Financial Officer